

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Dover Township	County Lake
Audit Date 3/31/06	Opinion Date 5/18/06	Date Accountant Report Submitted to State: July 11, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.			
Street Address 134 West Harris Street	City Cadillac	State MI	ZIP 49601
Accountant Signature 		Date 6/16/06	

DOVER TOWNSHIP, LAKE COUNTY

LUTHER, MICHIGAN

MARCH 31, 2006

DOVER TOWNSHIP, LAKE COUNTY
LUTHER, MICHIGAN

MARCH 31, 2006

TABLE OF CONTENTS

	<u>PAGES</u>
Independent Auditors' Report	i-ii
Management's Discussion and Analysis	iii-vii
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds	
Balance Sheet	3
Reconciliation of the Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures and Changes in Fund Balance	5
Reconciliation of the Statement of Revenues, Expenditures and Changes In	
Fund Balance to the Statement of Activities	6
Fiduciary Fund	
Statement of Fiduciary Net Assets	7
Notes to Financial Statements	8-17
Required Supplementary Information	
Budgetary Comparison Schedule - Major Governmental Funds	18
Financial Statements of Individual Funds	
Agency Funds	
<u>Current Tax Collection Fund</u>	
Statement of Changes in Assets and Liabilities	19
Other Information	
Statement of 2005 Tax Roll	20
Letter of Comments and Recommendations	21-22
Letter of Reportable Conditions	23

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CERTIFIED PUBLIC ACCOUNTANTS

May 18, 2006

INDEPENDENT AUDITORS' REPORT

To the Township Board
Dover Township
Lake County
Luther, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Dover Township, Lake County, Luther, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Dover Township, Lake County, Luther, Michigan as of March 31, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note I, the Township has implemented a new financial reporting model as required by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as of April 1, 2004.

The management's discussion and analysis on pages iii through vii and budgetary comparison information on page 18 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Dover Township, Lake County, Luther, Michigan's basic financial statements. The individual fund financial statements, and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

DOVER TOWNSHIP, LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2006

Dover Township, a general law township located in Lake County has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Dover Township board's discussion and analysis of the financial results for the fiscal year ended March 31, 2006.

Financial Highlights

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$79,530. Of this amount, \$61,467 may be used to meet the township's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$79,530. About 77% is available for spending at the Township's discretion.
- ◆ The Township is not obligated under any long-term debt as of March 31, 2006.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements The government-wide financial statements, required by GASB 34, are new and being shown for the first time in 2006 for Dover Township. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Township's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *Statement of Activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Township's that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type

DOVER TOWNSHIP, LAKE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

activities). The governmental activities of the Township include general government and administration, public safety, public works, and other functions. The Township does not have any business-type activities.

Fund Financial Statements

For the most part, the fund financial statements are comparable to prior years' financial statements. The primary difference is that the Account Groups (General Fixed Assets and General Long-Term Debt) are no longer reported. The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township's financial position over time. The Net Assets of the Township are \$79,530 at March 31, 2006, meaning the Township's assets were greater than its liabilities by this amount.

DOVER TOWNSHIP, LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2006

Dover Township
Net Assets as of March 31, 2006

	Governmental Activities
Assets	
Current Assets	\$ 79,618
Total Assets	<u>\$ 79,618</u>
Liabilities	
Current Liabilities	\$ 88
Net Assets	
Reserved for Telecommunications Right-of-Way	3,797
Reserved for Federal Forest Reserve	14,266
Unrestricted	<u>61,467</u>
Total Net Assets	<u>79,530</u>
Total Liabilities and Net Assets	<u>\$ 79,618</u>

The most significant portions of the Township's Net Assets are cash. The Township is not responsible for any long-term debt as of March 31, 2006. Other liabilities are minimal as of March 31, 2006.

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net assets for the government as a whole.

The following table illustrates and summarizes the results of the changes in the net assets for the Township. The condensed information was derived from the government-wide Statement of Activities.

Dover Township
Change in Net Assets
for the Fiscal Year Ended March 31, 2006

	Governmental Activities
<u>Revenues</u>	
Program Revenues	
Charges for Services	\$ 3,678
Capital Grants and Contributions	4,750
General Revenues	
Property Taxes and Assessments	12,043
State Shared Revenue	24,745
Interest Earnings	2,432
Other	<u>18,673</u>
Total Revenues	<u>66,321</u>

DOVER TOWNSHIP, LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2006

Expenses

Legislative	8,561
General Government, Administrative	31,101
Public Safety	18,673
Public Works	5,750
Other Functions	<u>5,928</u>
Total Expenses	<u>70,013</u>
Change in Net Assets	(3,692)
NET ASSETS – Beginning of Year	<u>83,222</u>
NET ASSETS – End of Year	\$ <u><u>79,530</u></u>

Governmental Activities

During the fiscal year ended March 31, 2006, the Township's net assets decreased by \$3,692 in the governmental funds.

A significant portion of the revenue for all governmental activities of Dover Township comes from property taxes and special assessments. The Township levied .9390 mills for operating purposes.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax.

The Township's governmental activities expenses are dominated by general governmental expenses that total 44% of total expenses. The Township spent \$31,101 in fiscal year 2006 on General Administrative expenses. Public Safety represented the next largest expense at \$18,673, or 26% of total expenses.

Financial Analysis of the Government's Funds

Governmental Funds The focus of Dover Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, Dover Township's governmental funds reported combined ending fund balances of \$79,530. Approximately 77%, or \$61,467 constitutes unreserved fund balance. The remainder of the fund balance is reserved for specific purposes and is therefore not available for new appropriation. For example, the fund balance that is reserved for Telecommunications Right-Of-Way must be used for expenditures that relate to Telecommunications Right-Of-Way.

DOVER TOWNSHIP, LAKE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

General Fund – The General Fund decreased its fund balance by \$3,692 which brings the fund balance to \$79,530. Of the General Fund's fund balance, \$3,797 is reserved for Telecommunications Right-Of-Way, \$14,266 is reserved for Federal Forest Reserve, and \$61,467 is unreserved. All of the General Fund's functions ended the year with expenditures below budgeted amounts. Taxes amounted to \$12,043. State shared revenues were collected in the amount of \$24,745.

Fire Fund – The Fire Fund fund balance remained the same at \$0. Special assessments collected amounted to \$18,673. The only expenditure was for contracted fire protection services in the amount of \$18,673.

Capital Assets and Debt Administration

Capital Assets. The Township has no capital assets.

Long-Term Debt. Dover Township has no obligation for any long-term debt as of March 31, 2006.

Economic Condition and Outlook

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means potential further reductions in state-shared revenues.

These factors were considered in preparing the Township's budgets for the 2006-07 fiscal year.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Dover Township at 7851 N. Skookum Road, Luther, Michigan 49656.

DOVER TOWNSHIP, LAKE COUNTY
LUTHER, MICHIGAN

STATEMENT OF NET ASSETS
MARCH 31, 2006

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 69,095
Receivables:	
Taxes and Special Assessments	3,810
External Parties (Fiduciary Fund)	17
Due from Other Governments	<u>6,696</u>
TOTAL ASSETS	<u>79,618</u>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Payroll Taxes and Withholdings	<u>88</u>
<u>NET ASSETS</u>	
Restricted for Telecommunications Right-Of-Way	3,797
Restricted for Federal Forest Reserve	14,266
Unrestricted	<u>61,467</u>
TOTAL NET ASSETS	<u>\$ 79,530</u>

The accompanying notes are an integral part of the financial statements.

DOVER TOWNSHIP, LAKE COUNTY
LUTHER, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2006

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSES) REVENUES AND
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	CHANGE IN NET ASSETS
					GOVERNMENTAL ACTIVITIES
<u>PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES</u>					
Legislative	\$ 8,561	\$ 0	\$ 0	\$ 0	\$ (8,561)
General Government, Administrative	31,101	3,678	0	4,750	(22,673)
Public Safety	18,673	0	0	0	(18,673)
Public Works	5,750	0	0	0	(5,750)
Other Functions	5,928	0	0	0	(5,928)
Total Governmental Activities	<u>\$ 70,013</u>	<u>\$ 3,678</u>	<u>\$ 0</u>	<u>\$ 4,750</u>	<u>\$ (61,585)</u>
<u>GENERAL REVENUES</u>					
Taxes					12,043
State Shared Revenue					24,745
Interest Earnings					2,432
Other					18,673
Total General Revenues					<u>57,893</u>
Change in Net Assets					(3,692)
<u>NET ASSETS</u> - Beginning of Year					<u>83,222</u>
<u>NET ASSETS</u> - End of Year					<u>\$ 79,530</u>

The accompanying notes are an integral part of the financial statements.

DOVER TOWNSHIP, LAKE COUNTY

LUTHER, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET

MARCH 31, 2006

	GENERAL FUND	FIRE FUND	TOTALS
<u>ASSETS</u>			
Cash	\$ 69,095	\$ 0	\$ 69,095
Taxes and Special Assessments Receivable	1,217	2,593	3,810
Due From Other Governments	6,696	0	6,696
Due From Other Funds	2,610	0	2,610
Total Assets	<u>\$ 79,618</u>	<u>\$ 2,593</u>	<u>\$ 82,211</u>
 <u>LIABILITIES AND FUND BALANCE</u>			
<u>LIABILITIES</u>			
Payroll Withholdings Payable	\$ 88	\$ 0	\$ 88
Due to Other Funds	0	2,593	2,593
Total Liabilities	<u>88</u>	<u>2,593</u>	<u>2,681</u>
 <u>FUND BALANCE</u>			
Reserved for:			
Telecommunications Right-Of-Way	3,797	0	3,797
Federal Forest Fund	14,266	0	14,266
Unreserved			
Undesignated	61,467	0	61,467
Total Fund Balance	<u>79,530</u>	<u>0</u>	<u>79,530</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 79,618</u>	 <u>\$ 2,593</u>	 <u>\$ 82,211</u>

The accompanying notes are an integral part of the financial statements.

DOVER TOWNSHIP, LAKE COUNTY
LUTHER, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
MARCH 31, 2006

Total Fund Balances for Governmental Funds	\$ 79,530
Amounts Reported for Governmental Activities in the Statement of Net Assets are Not Different:	<u>0</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 79,530</u></u>

The accompanying notes are an integral part of the financial statements.

DOVER TOWNSHIP, LAKE COUNTY

LUTHER, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31, 2006

	GENERAL FUND	FIRE FUND	TOTALS
<u>REVENUES</u>			
Taxes	\$ 12,043	\$ 0	\$ 12,043
State Grants	29,495	0	29,495
Charges for Services	2,758	0	2,758
Interest and Rents	3,352	0	3,352
Other Revenues	0	18,673	18,673
Total Revenues	47,648	18,673	66,321
<u>EXPENDITURES</u>			
Legislative	8,561	0	8,561
General Government	31,101	0	31,101
Public Safety	0	18,673	18,673
Public Works	5,750	0	5,750
Other Functions	5,928	0	5,928
Total Expenditures	51,340	18,673	70,013
Excess (Deficiency) of Revenues Over Expenditures	(3,692)	0	(3,692)
<u>FUND BALANCE</u> - Beginning of Year	83,222	0	83,222
<u>FUND BALANCE</u> - End of Year	\$ 79,530	\$ 0	\$ 79,530

The accompanying notes are an integral part of the financial statements.

DOVER TOWNSHIP, LAKE COUNTY
LUTHER, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
MARCH 31, 2006

Net change in Fund Balance - Total Governmental Funds	\$ (3,692)
Amounts reported for governmental activities are not different:	<u>0</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (3,692)</u></u>

The accompanying notes are an integral part of the financial statements.

DOVER TOWNSHIP, LAKE COUNTY
LUTHER, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS
MARCH 31, 2006

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	<u>\$ 17</u>
<u>LIABILITIES</u>	
Due to General Fund	<u>\$ 17</u>

The accompanying notes are an integral part of the financial statements.

DOVER TOWNSHIP, LAKE COUNTY
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Dover Township is a general law township located in Lake County which operates under the direction of an elected township board. Under the criteria established by generally accepted accounting principles, the Township has determined that there are no component units which should be included in its reporting entity.

B. Government-wide and Fund Financial Statements

During fiscal year 2005, the Township adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

DOVER TOWNSHIP, LAKE COUNTY
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, interest and special assessments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivables due within the current period is considered to be susceptible to accrual as revenue of the current period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Township are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Dover Township reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Fire Fund* accounts for revenue sources that are legally restricted to expenditure for fire protection.

Additionally, Dover Township reports the following fund types:

DOVER TOWNSHIP, LAKE COUNTY
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The Township has authorized the Township Treasurer to invest funds as follows:

- a. In bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States. This subdivision shall include securities issued or guaranteed by the government national mortgage association;
- b. In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union meeting all criteria as a depository of public funds contained in state law;

DOVER TOWNSHIP, LAKE COUNTY
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

- c. In commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- d. In United States government or federal agency obligation repurchase agreements;
- e. In bankers' acceptances of United States banks;
- f. In Mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan;
- g. In obligations permitted by PA 20 of 1943, as amended by PA 196, if purchased through an interlocal agreement under the Urban Cooperation Act of 1967;
- h. In investment pools organized under the Surplus Funds Investment Pool Act, PA 367 of 1982 or
- i. In investment pools organized under the Local Government Investment Pool Act, PA 121 of 1985.

2. *Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes and one-third of county taxes are levied and due July 1, and become delinquent after September 14. The remaining millages are levied and due December 1, and become delinquent after February 14. Collections of taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2005 taxable valuation of Dover Township totaled \$9,622,990, on which ad valorem taxes levied consisted of .9390 mills for Dover Township operating purposes. This levy raised approximately \$9,034 for operating purposes.

DOVER TOWNSHIP, LAKE COUNTY
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

3. *Inventories and Prepaid Items*

Inventories are not significant and are expensed as required. No prepaid items were recorded at year end.

4. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Building improvements	20
Public domain infrastructure	50
Vehicles	10
Equipment	5-10

Dover Township qualifies as a phase 3 governmental unit in regards to the implementation of GASB 34. Phase 3 governmental units are not required to retroactively capitalize infrastructure. As a result, the Township will capitalize and depreciate infrastructure beginning April 1, 2004, in accordance with the Township's capitalization policy.

5. *Long-term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing

DOVER TOWNSHIP, LAKE COUNTY
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The Township currently has no long-term obligations.

6. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. *Use of Estimates*

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. *Budgetary Information*

The annual budget is adopted on the modified accrual basis in accordance with the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act". A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budget amounts are as originally adopted on January 13, 2005, or as amended by the Township Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

III. DETAILED NOTES ON ALL FUNDS

A. *Deposits and Investments*

The Township's deposits are on deposit with Lake Osceola State Bank in Luther, Michigan, Citizens Bank in Cadillac, Michigan and Fifth Third Bank, Cadillac, Michigan.

Investment rate risk. The Township will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating

DOVER TOWNSHIP, LAKE COUNTY
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Township's cash requirement.

Foreign currency risk. The Township is not authorized to invest in investments, which have this type of risk.

Credit risk. The Township will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Township's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Township will do business in accordance with the Township's investment policy.

Concentration of credit risk. The Township will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2006, none of the government's bank balance of \$131,643 was exposed to custodial credit risk.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township's investments are categorized to give an indication of the level of risk assumed by the Township at year end. Category 1 includes investments that are insured or registered, or securities held by the Township or the Township's agent in the Township's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Township's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Township's name. At year end, the Township held no investments.

B. Receivables

Receivables as of year end for the government's individual major funds are as follows:

	<u>General</u>		<u>Fire</u>		<u>Total</u>	
Receivables						
Taxes and Special Assessments	\$	1,217	\$	2,593	\$	3,810

The allowance for doubtful accounts is not considered to be material for disclosure.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer

DOVER TOWNSHIP, LAKE COUNTY
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

revenue recognition in connection with resources that have been received, but not yet earned. At the end of the fiscal year, the Township did not have any deferred revenue.

C. Capital Assets

Primary Government

The Township has no assets that have reached their capitalization threshold.

Construction Commitments:

The government has no outstanding construction commitments as of March 31, 2006.

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at March 31, 2006, were:

<u>Fund</u>	<u>INTERFUND RECEIVABLES DUE FROM'S</u>	<u>INTERFUND PAYABLES DUE TO'S</u>
Primary Government Only Due From/To Other Funds:		
General Fund		
Fire	\$ 2,593	\$ 0
Current Tax	17	0
Fire		
General Fund	0	2,593
Current Tax		
General Fund	0	17
Total Primary Government	<u>\$ 2,610</u>	<u>\$ 2,610</u>

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All are expected to be resolved within one year.

E. Long-Term Debt

At March 31, 2006, the Township was not obligated for any long-term debt.

F. Fund Balance Reserves

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Township has reserved fund balances in various funds. These reserves are detailed in the following schedule:

DOVER TOWNSHIP, LAKE COUNTY
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

FUND BALANCE/NET ASSETS

Reserved

General Fund

Telecommunications Right-Of-Way \$ 3,797

Federal Forest Reserve 14,266

Total Fund Balance Reservations \$ 18,063

IV. OTHER INFORMATION

A. Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, workers compensation insurance and errors and omissions insurance. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

B. Retirement Plan

Effective April 1, 1991, the Township established a Simplified Employee Pension - Individual Retirement Account (SEP-IRA). The plan is with Citizens Bank, Cadillac, Michigan. The plan covers all employees who receive \$300 or more of compensation from the Township. To be eligible for plan coverage, each employee must be at least 18 years of age.

Contributions to the plan are based on annual compensation and are payable annually. For the 2005-2006 year, covered compensation was \$20,615, and the total of all wages including noncovered wages was \$25,345. The Township's total contributions to the plan during the 2005-2006 fiscal year were \$1,326.

The individual retirement account balances become the property of the employee immediately. Therefore, there are no plan assets or liabilities which are includible as part of the Township reporting entity.

C. Fire Fund

The Fire Fund as reported in these financial statements shows the transactions of the Township Fire Fund as they would have occurred if all fire monies received for current and delinquent taxes were sent to the Fire Fund before being sent to the Tustin Area Fire District. The payments are being sent to the

DOVER TOWNSHIP, LAKE COUNTY
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

Tustin Area Fire District directly from the Current Tax Collection Fund and from the General Fund due to the substantial savings of time and bookkeeping procedures.

D. Joint Fire District

The Township is a member of the Tustin Area Fire District. The Fire District is a joint venture of Burdell, Dover and Sherman Townships created to provide fire protection for the member townships. Dover Township levies a special assessment to support the Fire District. The following financial information was taken from the Fire District's February 29, 2004, audited financial statements:

Total Assets	\$ 712,661
Investment in Fixed Assets	619,449
Balance - Unreserved	93,212
Total Receipts	110,587
Total Disbursements	61,890
Loan Payment	28,179
Net Increase (Decrease) in Fund Balance	20,518

A copy of these audited financial statements may be obtained upon request from the Fire District treasurer.

DOVER TOWNSHIP, LAKE COUNTY
LUTHER, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED MARCH 31, 2006

	GENERAL FUND				FIRE FUND			
	ORIGINAL	FINAL		VARIANCE	ORIGINAL	FINAL		VARIANCE
	BUDGET	BUDGET	ACTUAL	WITH FINAL BUDGET	BUDGET	BUDGET	ACTUAL	WITH FINAL BUDGET
<u>REVENUES</u>								
Taxes	\$ 4,200	\$ 4,200	\$12,043	\$ 7,843	\$ 0	\$ 0	\$ 0	\$ 0
State Grants	20,000	20,000	29,495	9,495	0	0	0	0
Charges for Services	200	200	2,758	2,558	0	0	0	0
Interest and Rents	400	400	3,352	2,952	0	0	0	0
Other Revenues	0	0	0	0	19,000	19,000	18,673	(327)
Total Revenues	24,800	24,800	47,648	22,848	19,000	19,000	18,673	(327)
<u>EXPENDITURES</u>								
Legislative								
Township Board	15,350	15,350	8,561	6,789	0	0	0	0
General Government								
Supervisor	6,500	6,500	5,792	708	0	0	0	0
Elections	3,000	7,000	4,750	2,250	0	0	0	0
Assessor	5,000	5,000	4,297	703	0	0	0	0
Clerk	7,000	7,000	6,610	390	0	0	0	0
Board of Review	1,200	1,200	315	885	0	0	0	0
Treasurer	6,500	6,500	6,172	328	0	0	0	0
Building and Grounds	10,000	10,000	1,135	8,865	0	0	0	0
Cemetery	3,000	3,000	2,030	970	0	0	0	0
Public Safety								
Fire Department	200	200	0	200	19,000	19,000	18,673	327
Public Works								
Highways, Streets and Bridges	11,800	7,800	5,750	2,050	0	0	0	0
Recreation and Cultural								
Parks and Recreation	3,000	3,000	0	3,000	0	0	0	0
Other Functions								
Insurance and Bonds	7,450	5,000	4,238	762	0	0	0	0
Employee Benefits		2,450	1,690	760	0	0	0	0
Total Expenditures	80,000	80,000	51,340	28,660	19,000	19,000	18,673	327
Excess (Deficiency) of Revenues Over Expenditures	(55,200)	(55,200)	(3,692)	51,508	0	0	0	0
<u>FUND BALANCE</u> - Beginning of Year	55,200	55,200	83,222	28,022	0	0	0	0
<u>FUND BALANCE</u> - End of Year	\$ 0	\$ 0	\$79,530	\$ 79,530	\$ 0	\$ 0	\$ 0	\$ 0

DOVER TOWNSHIP, LAKE COUNTY

LUTHER, MICHIGAN

CURRENT TAX COLLECTION FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

YEAR ENDED MARCH 31, 2006

	BALANCE				BALANCE	
	4/1/2005	ADDITIONS	DEDUCTIONS		3/31/2006	
<u>ASSETS</u>						
Cash	\$ 935	\$ 322,476	\$ 323,394	\$		17
<u>LIABILITIES</u>						
Due to Other Funds	\$ 935	\$ 23,897	\$ 24,815	\$		17
Due to Other Governmental Units	0	298,387	298,387			0
Due to Other Organizations and Individuals	0	192	192			0
TOTAL LIABILITIES	\$ 935	\$ 322,476	\$ 323,394	\$		17

DOVER TOWNSHIP, LAKE COUNTY
LUTHER, MICHIGAN
STATEMENT OF 2005 TAX ROLL
MARCH 31, 2006

TAXES ASSESSED

County		
County Taxes	\$ 108,291	
State Education Tax	57,736	
Township		
Operating	9,034	
Fire - Special Assessment	18,673	
School		
Pine River Area Schools	111,915	
Intermediate School		
Wexford-Missaukee	<u>57,364</u>	363,013

TAXES COLLECTED

County		
County Taxes	94,692	
State Education Tax	52,854	
Township		
Operating	7,816	
Fire - Special Assessment	16,079	
School		
Pine River Area Schools	101,097	
Intermediate School		
Wexford-Missaukee	<u>49,633</u>	<u>322,171</u>

TAXES RETURNED DELINQUENT

County		
County Taxes	13,599	
State Education Tax	4,882	
Township		
Operating	1,218	
Fire - Special Assessment	2,594	
School		
Pine River Area Schools	10,818	
Intermediate School		
Wexford-Missaukee	<u>7,731</u>	<u>\$ 40,842</u>

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

May 18, 2006

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Township Board
Dover Township
Lake County
Luther, Michigan

During the course of our audit of the basic financial statements of Dover Township for the year ended March 31, 2006, we noted the following:

GASB 34

The Governmental Accounting Standards Board (GASB) has issued Statement 34 that provides for changes in reporting requirements for township financial statements. For Dover Township, these changes were implemented in the March 31, 2006 financial audit.

Some of the more significant changes required by GASB 34 are as follows:

- a) Management's discussion and analysis is a new section in the financial report. This includes the administration's narrative overview of the information contained in the financial statements.
- b) Several new types of financial statements are now included that report financial information on a Township-wide basis and incorporate the full accrual method of accounting.

Ledger Balances

The Township maintained a manual ledger, a computer ledger and at year end prepared a summary financial statement. All three documents had different numbers from each other. The computer ledger reconciled to the bank account, but appeared to have some incorrect postings of expenditures. The computer ledger also only had revenues in total, which was different from the revenue breakdown in the ledger and on the year end financial summary. We recommend that all records of the township agree with each other, and differences, if any, promptly investigated and cleared.

While we are encouraged that the township is beginning to computerize its record keeping, we noted that the computerized chart of accounts did not contain enough detail to be in compliance with the State Chart of Accounts. We are available to provide assistance and training with this area if desired.

Summer Tax Collection Fee

The Township was unaware it had not received its summer tax collection fee. Also, Lake County was unaware it had been mistakenly paid to them by the township instead of netting it from the summer tax collections to be remitted to the County. Fortunately, this was uncovered during your audit, and the County will be sending the Township a check for almost \$1,200 as a result of this finding.

We recommend that the Township Treasurer follow the procedure for netting this money from summer tax collections that the Lake County Treasurer has set up to prevent this from occurring in the future.

We would like to thank the board for its continued confidence in our firm and to thank the township clerk and treasurer for their cooperation.

If you have any questions relative to the above comments and recommendations or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

134 WEST HARRIS STREET
CADILLAC, MICHIGAN 49601
231-775-9789
FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A.
1902 - 1990

JACK H. BAIRD, C.P.A.
JERRY L. COTTER, C.P.A.
DALE D. COTTER, C.P.A.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

JOHN H. BISHOP, C.P.A.
ROBERT V. BEATTIE, C.P.A.
DOUGLAS P. McMULLEN, C.P.A.
JOHN F. TAYLOR, C.P.A.
STEVEN C. ARENDS, C.P.A.
SCOTT A. HUNTER, C.P.A.
JONATHAN E. DAMHOF, C.P.A.
MICHAEL D. COOL, C.P.A.

May 18, 2006

LETTER OF REPORTABLE CONDITIONS

To the Township Board
Dover Township
Lake County
Luther, Michigan

In planning and performing our audit of the basic financial statements of Dover Township, Lake County, Luther, Michigan for the year ended March 31, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

The relatively small number of people involved in the accounting functions of the Township and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.